REVENUE SUSTAINABILITY ESTIMATION

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UPSIDE/DOWNSIDE

Upside Potential

- Low unemployment
- Federal stimulus aiding collections
- Slowing COVID cases

Downside Risk

- Persistent inflation
- Supply/demand issues
  - Shift in consumption
- Sticky labor force participation
- End of fiscal intervention

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NEXT STEPS

- Estimate risk
- Isolate sustainable portion of revenues
- Process
  - Forecast revenues
  - Identify counterfactual(s)
  - Estimate sustainable revenue
  - Present options to EAC in December

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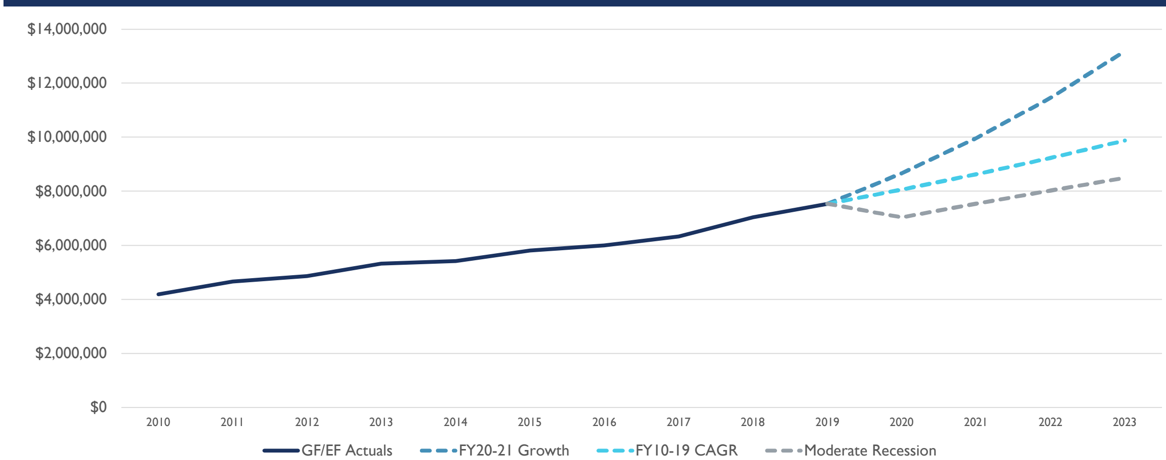
IDENTIFY COUNTERFACTUALS



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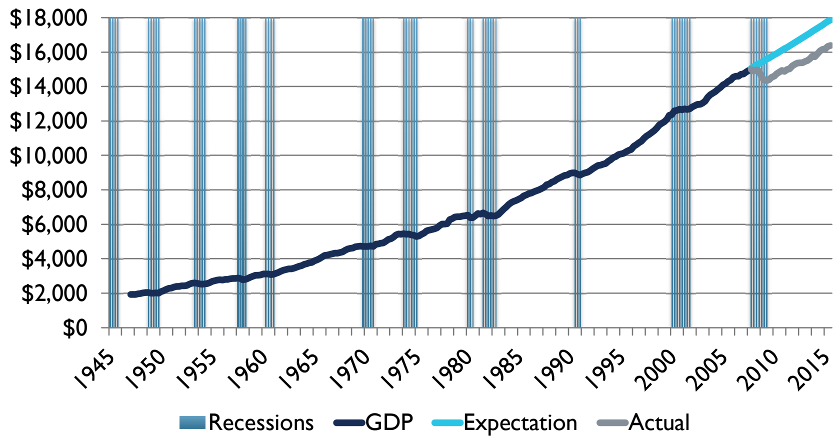
U.S. GDP ($B) & RECESSIONS



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METHODOLOGIES

- Identify counterfactuals
  - Compound annual growth rate
  - Forecast from FY19 actuals
  - Forecast from deflated FY21
  - Time series decomposition
- Estimate unsustainable revenue
  - Differential between forecast and counterfactual
  - REMI model
    - Account for state/local govt spending, unemployment insurance, PPP loans, stimulus checks, budget reductions

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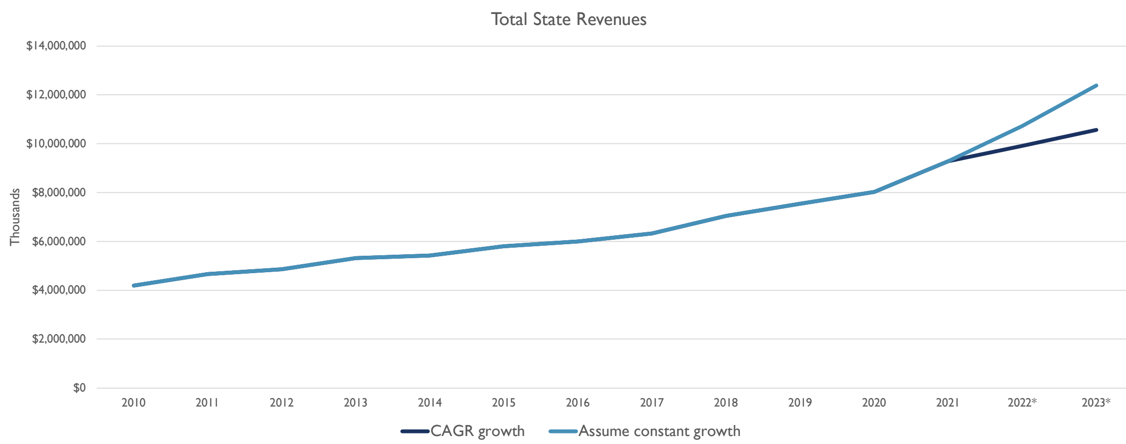
COMPOUND ANNUAL GROWTH



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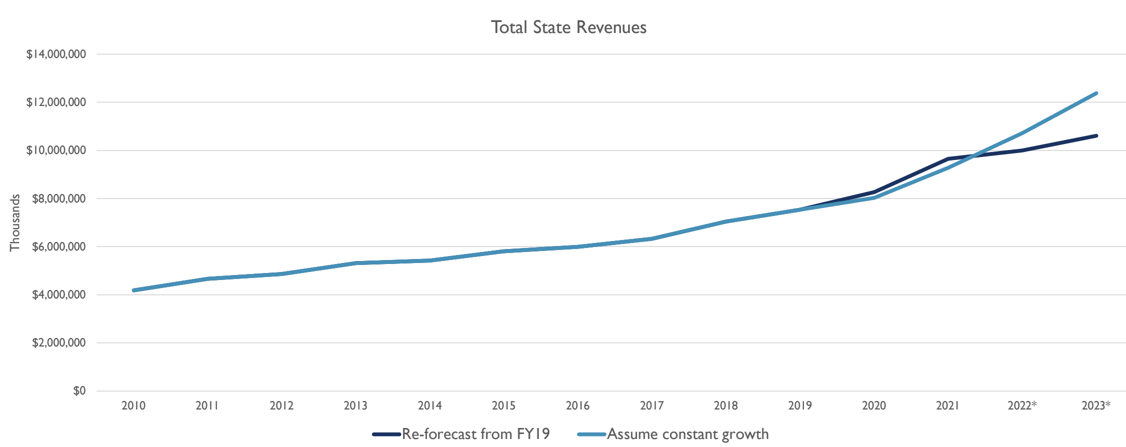
RE-FORECAST FROM FY19



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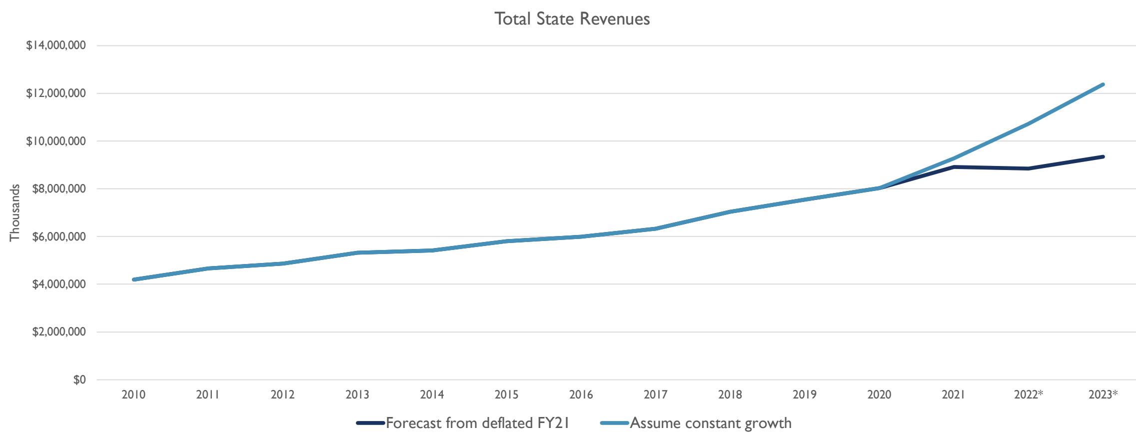
FORECAST FROM DEFLATED FY21



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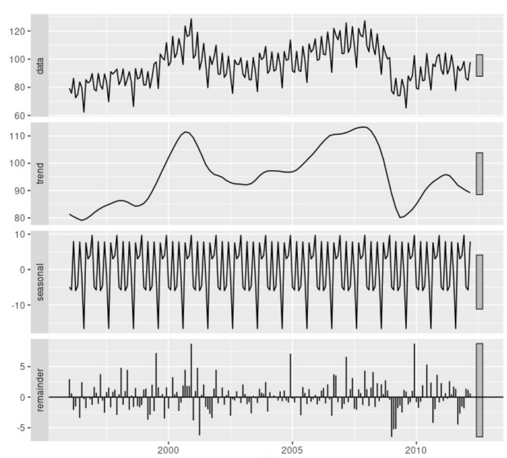
TIME SERIES DECOMPOSITION



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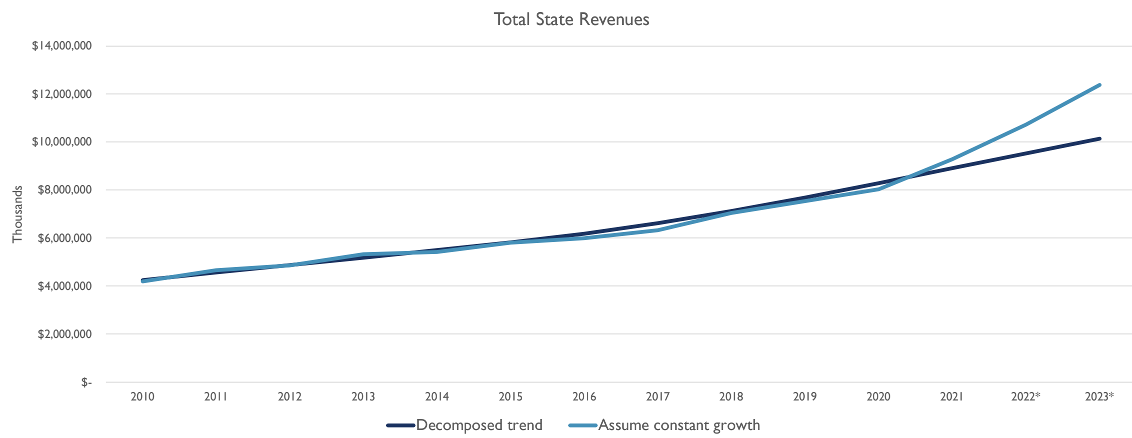
TIME SERIES DECOMPOSITION



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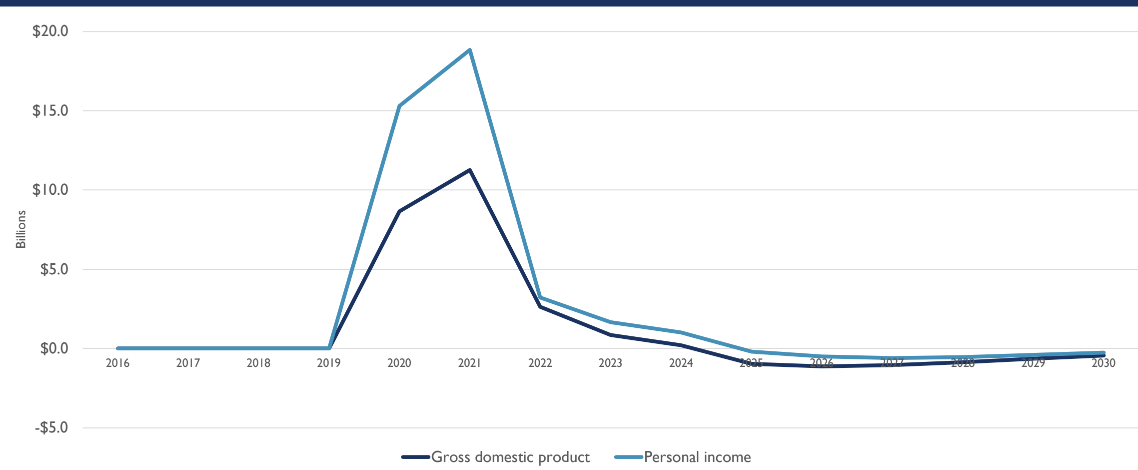
REMI RESULTS – AS APPROPRIATED



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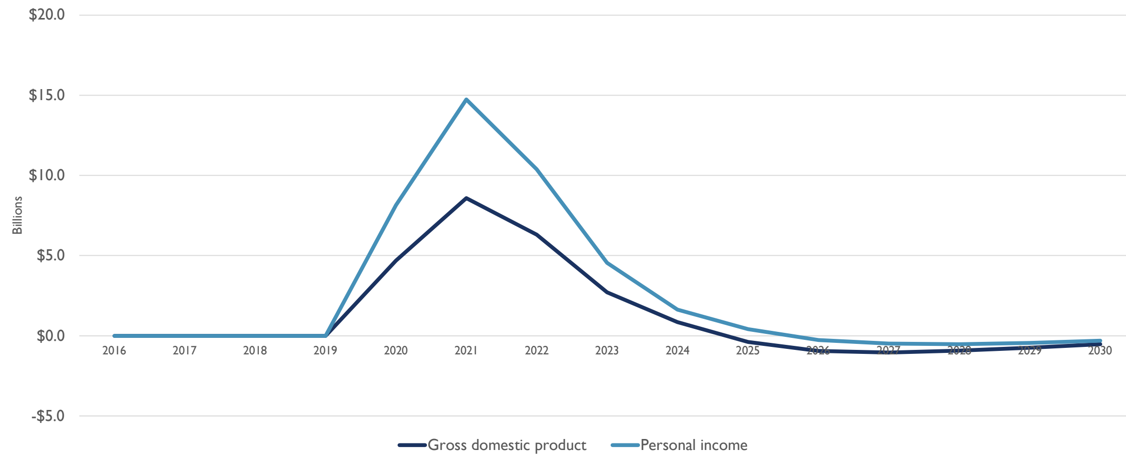
REMI RESULTS – LONGER SPENDDOWN



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REMI ESTIMATES OF EXCESS REVENUE

	Year 1	Year 2	Year 3	Year 4
As appropriated	$964,528,000	$1,187,462,000	$202,397,000	$103,953,000
Assumed longer spend-down	$513,546,000	$928,884,000	$654,555,000	$286,935,000

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ASSUMPTIONS

- Counterfactual – prior years' growth would have continued?
- How quickly will stimulus funds be spent?
  - State/local
  - Individual stimulus
  - PPP loans
- To what extent did stimulus funds offset own income spending (individual and corporate)?
  - To what extent will that result in higher spending in future years, in spite of no additional stimulus funds?
- When will the "consumption shift" shift back? (Goods -> services -> goods)
- How persistent will inflation be?

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RISK MITIGATION STRATEGIES

In December, EAC shall: (JR3-2-402)

- consider treating above-trend revenue growth as one-time revenue for major tax types
- hear a report on the historical, current, and anticipated status of the following:
  - debt;
  - long term liabilities;
  - contingent liabilities;
  - General Fund borrowing;
  - cash funded infrastructure investment;
- decide whether to set aside special allocations for the end of the session, including allocations of one-time revenue to pay down debt and other liabilities;
- decide whether to set aside special allocations for legislation that will reduce taxes

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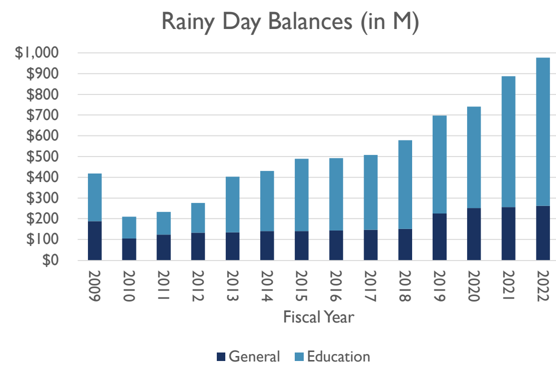
RISK MITIGATION
OPTION 1 - RESERVES

- Rainy Day Funds:
  - Currently at 9% GF and 11% EF targets
  - $57 million to get to 25% of 2021 surplus
  - $850 k per basis point of appropriations
- Wildland Fire Mitigation:
  - $20 m - $30 m per year cost
  - Est. $28 m available in fund/program for FY 2022
  - Add'l $50 m deposit forward-funds 2-3 years



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RISK MITIGATION
OPTION 2 – DEBT AND LIABILITIES

Debt

- Pay-back May 2020 Prison Debt = $350 million
- Pay-back Recent Highway Debt = $1.2 billion
- Rescind State Frontrunner Bond = $200 million

Liabilities

- General Fund Borrowing = $18 million
- OPEB Liability = $300 million
- Retirement Unfunded Liability = $3.5 billion (2020)

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RISK MITIGATION
OPTION 3 – CASH INFRASTRUCTURE

Ongoing:

- Restore Buildings Cash = $100 m
- HED Capital Development Fund = $120 m
- Raise TIF of 2005 Cap = $43 m

One-time:

- Infrastructure Capital Development Fund
- NSF Buildings Revolving Loan Fund

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NEXT STEPS

- Incorporate feedback
- December EAC
  - Present consensus revenue figures
  - Differentiate "Signal" from "Noise"
  - Decide set-asides for risk, spending, and tax cuts

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QUESTIONS?

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CHECKABLE DEPOSITS

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PERSONAL SAVING RATE

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